

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations**

**Financial Statements and Supplemental Schedules
June 30, 2003 and 2002**

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
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Report of Independent Auditors

To the Chair and Members
of the City Council
City and County of Honolulu
Honolulu, Hawaii

We have audited the accompanying financial statements of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations (the “Company”), as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations, are intended to present the financial position and the changes in financial position and cash flows of only that portion of the funds of the City and County of Honolulu that is attributable to the transactions of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations. They do not purport to, and do not, present fairly the financial position of the City and County of Honolulu as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations as of June 30, 2003 and 2002, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
September 29, 2003

City and County of Honolulu Public Transportation System – Bus and Paratransit Operations

Management's Discussion and Analysis June 30, 2003

As financial management of the City and County of Honolulu Public Transportation System (TheBus & Handi-Van operations), we offer readers of these financial statements this narrative overview and analysis of the financial activities of TheBus & Handi-Van for the fiscal year ended June 30, 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

(All amounts, unless otherwise indicated, are expressed in thousands of dollars.)

Financial Highlights

- Operating loss for TheBus & Handi-Van was \$115,190 for fiscal year 2003 as compared to an operating loss of \$109,693 for fiscal year 2002.
- Operating revenue (primarily passenger revenue) for TheBus & Handi-Van decreased by \$503 or 1.6% for fiscal year ended 2003. Passenger revenue is expected to increase next fiscal year due to a fare increase on July 1, 2003 and a second fare increase approved by the City Council on September 24, 2003.
- Net assets decreased by \$8,824 in fiscal year 2003 or 6% from fiscal year 2002 net assets. The term "net assets" refers to the difference between assets and liabilities. At the end of fiscal year 2003, TheBus & Handi-Van had net assets of \$138,961.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to TheBus & Handi-Van financial statements, which is comprised of the basic financial statements, notes to the financial statements and supplemental schedules.

The basic financial statements are designed to provide readers with a broad overview of TheBus & Handi-Van's finances, in a manner similar to a private-sector business.

The statements of net assets present information of TheBus & Handi-Van's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of TheBus & Handi-Van is improving or deteriorating. Net assets increase when revenues and subsidies exceed expenses. Increases to assets, without a corresponding increase to liabilities, results in increased net assets, which indicate an improved financial position.

The statements of revenues, expenses and changes in net assets present information showing how TheBus & Handi-Van's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

City and County of Honolulu Public Transportation System – Bus and Paratransit Operations

Management's Discussion and Analysis June 30, 2003

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements and accompanying notes to financial statements, this report also presents the statements of net assets and operations information for the separate balances and transactions for TheBus & Handi-Van.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. TheBus & Handi-Van assets exceeded liabilities by \$138,961 at the end of fiscal year 2003, a decrease of \$8,824 or 6% from fiscal year 2002 net assets. The decrease was primarily due to the decline in contribution of fixed assets from the City and County of Honolulu.

The largest portion of TheBus & Handi-Van's net assets represented its investment in capital assets (e.g., buses, buildings, maintenance equipment, etc.). TheBus & Handi-Van use these capital assets to provide public transit services on the Island of Oahu and consequently, capital assets are not available to liquidate liabilities or other spending.

TheBus & Handi-Van's condensed financial information include:

Net Assets

	2003	2002
Current and other assets	\$ 12,653	\$ 16,980
Restricted assets	740	819
Capital assets, net	141,292	144,777
Total assets	<u>154,685</u>	<u>162,576</u>
Current liabilities	13,441	12,293
Noncurrent liabilities	2,283	2,498
Total liabilities	<u>15,724</u>	<u>14,791</u>
Net assets:		
Invested in capital assets	141,292	144,777
Unrestricted	<u>(2,331)</u>	<u>3,008</u>
	<u>\$ 138,961</u>	<u>\$ 147,785</u>

City and County of Honolulu Public Transportation System – Bus and Paratransit Operations

Management's Discussion and Analysis June 30, 2003

Changes in Net Assets

	2003	2002
Operating revenues	\$ 31,776	\$ 32,279
Operating expenses	<u>(146,966)</u>	<u>(141,972)</u>
Loss from operations	(115,190)	(109,693)
Nonoperating revenues (expenses):		
Interest and investment income	(29)	72
Loss on assets disposal or write-off	<u>(1,218)</u>	<u>(4,491)</u>
Loss before contributed capital	(116,437)	(114,112)
Operating transfers	74,613	72,911
Contributions	<u>33,000</u>	<u>58,163</u>
Change in net assets	(8,824)	16,962
Net assets, beginning of year	<u>147,785</u>	<u>130,823</u>
Net assets, end of year	<u><u>\$ 138,961</u></u>	<u><u>\$ 147,785</u></u>

Significant Events

- Contributions decreased by \$25,163 or 43% attributable to the decline in contribution of fixed assets from the City and County of Honolulu in fiscal 2003. Fiscal year 2002 major capital contributions included the New Pearl City Bus Facility (\$22 million) and equipment for the Pearl City Bus Facility (\$4.4 million).
- The Teamsters, Local 996, broke off collective bargaining negotiations with Oahu Transit Services, Inc. ("OTS") and went out on strike on August 26, 2003. On September 27, 2003, a new collective bargaining agreement was ratified by members of the Union. Service was restored on September 29, 2003.

Capital Assets and Debt Administration

TheBus & Handi-Van's investment in capital assets amounted to \$141,292, net of accumulated depreciation, as of June 30, 2003, a decrease of \$3,485 or 2.4%. Capital assets include buses and vans, buildings, equipment and furniture. There were no major capital asset events during the current fiscal year.

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**Management's Discussion and Analysis
June 30, 2003**

Requests for Information

This financial report is designed to provide a general overview of TheBus & Handi-Van's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City and County of Honolulu, Department of Transportation Services.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statements of Net Assets
June 30, 2003 and 2002**

	2003	2002
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,317,747	\$ 8,878,227
Parts and supplies inventories, net of \$227,000 and \$1,227,000 reserve for obsolescence in 2003 and 2002, respectively	6,631,056	6,352,889
Prepaid expenses and other assets	1,704,259	1,748,435
Total current assets	12,653,062	16,979,551
Restricted Assets Held by Oahu Transit Services, Inc.	740,529	819,455
Property and Equipment, net	141,291,435	144,776,623
Total assets	154,685,026	162,575,629
Liabilities and Net Assets		
Current Liabilities:		
Payable to Oahu Transit Services, Inc. for accrued expenses	782,476	936,549
Reserve for insurance claims payable	10,370,854	9,519,281
Accounts payable	1,043,245	1,183,269
Deferred income	1,244,150	653,946
Total current liabilities	13,440,725	12,293,045
Noncurrent Payable to Oahu Transit Services, Inc.	2,283,525	2,497,670
Total liabilities	15,724,250	14,790,715
Commitments and Contingencies		
Net Assets:		
Invested in capital assets	141,291,435	144,776,623
Unrestricted	(2,330,659)	3,008,291
Total net assets	\$ 138,960,776	\$ 147,784,914

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2003 and 2002**

	2003	2002
Operating Revenues:		
Passenger fares for transit services	\$ 31,357,724	\$ 31,843,528
Nontransportation revenue	238,575	287,829
Special service revenue	179,541	147,511
Total operating revenues	<u>31,775,840</u>	<u>32,278,868</u>
Operating Expenses:		
Contract services	99,905,555	95,106,231
Depreciation	13,588,350	14,737,777
Insurance	11,165,698	8,659,025
Material and supplies	8,722,951	10,217,235
Fuel and lubricants	6,190,974	5,725,087
Services	3,608,211	3,824,562
State fuel taxes	2,301,397	2,265,291
Utilities, rentals and others	1,482,396	1,436,977
Total operating expenses	<u>146,965,532</u>	<u>141,972,185</u>
Operating loss	(115,189,692)	(109,693,317)
Nonoperating Revenue (Expense):		
Interest income	32,439	60,858
Loss on disposal or write-off of property and equipment	(1,218,578)	(4,490,930)
Net increase (decrease) in fair value of investments	<u>(61,241)</u>	<u>11,290</u>
Loss before transfers and contributions	(116,437,072)	(114,112,099)
Transfers – Appropriations from City and County of Honolulu	74,612,893	72,911,690
Contributions	<u>33,000,041</u>	<u>58,162,744</u>
Change in net assets	(8,824,138)	16,962,335
Net Assets at Beginning of Year	<u>147,784,914</u>	<u>130,822,579</u>
Net Assets at End of Year	<u>\$ 138,960,776</u>	<u>\$ 147,784,914</u>

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
Public Transportation System –
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Statements of Cash Flows
For the Years Ended June 30, 2003 and 2002**

	2003	2002
Cash Flows from Operating Activities:		
Cash received from passengers	\$ 32,366,055	\$ 32,152,154
Cash paid to suppliers and employees	<u>(132,756,614)</u>	<u>(126,586,411)</u>
Net cash used in operating activities	<u>(100,390,559)</u>	<u>(94,434,257)</u>
Cash Flows from Noncapital Financing Activities:		
Transfers – Appropriations from City and County of Honolulu	74,612,893	72,911,690
Contributions	<u>21,211,643</u>	<u>21,787,332</u>
Net cash provided by noncapital financing activities	<u>95,824,536</u>	<u>94,699,022</u>
Cash Flows from Capital and Related Financing Activities:		
Purchases of property and equipment	(126,813)	(250,381)
Capital contributions	<u>-</u>	<u>383,670</u>
Net cash provided by (used in) capital and related financing activities	<u>(126,813)</u>	<u>133,289</u>
Cash Flows from Investing Activities:		
Proceeds from maturity and sale of investments	7,132,885	6,126,685
Purchase of investments	(7,108,396)	(3,296,018)
Interest income	<u>32,439</u>	<u>60,858</u>
Net cash provided by investing activities	<u>56,928</u>	<u>2,891,525</u>
Net increase (decrease) in cash and cash equivalents	(4,635,908)	3,289,579
Cash and Cash Equivalents at Beginning of Year (including \$815,957 and \$1,108,734 of cash and cash equivalents in restricted assets in 2003 and 2002, respectively)	<u>9,694,184</u>	<u>6,404,605</u>
Cash and Cash Equivalents at End of Year (including \$740,529 and \$815,957 of cash and cash equivalents in restricted assets in 2003 and 2002, respectively)	<u>\$ 5,058,276</u>	<u>\$ 9,694,184</u>

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
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Statements of Cash Flows (Continued)
For the Years Ended June 30, 2003 and 2002**

	2003	2002
Cash Flows from Operating Activities:		
Operating loss	\$ (115,189,692)	\$ (109,693,317)
Adjustments to reconcile operating loss to net cash used in operating activities –		
Depreciation	13,588,350	14,737,777
Changes in assets and liabilities:		
Parts and supplies inventories, net	(278,165)	1,129,570
Prepaid expenses and other assets	555,411	(80,691)
Accounts payable	(140,024)	(301,880)
Reserve for insurance claims payable	851,573	1,745,354
Payable to Oahu Transit Services, Inc. for accrued expenses	(368,217)	(1,844,356)
Deferred income	<u>590,205</u>	<u>(126,714)</u>
Net cash used in operating activities	<u>\$ (100,390,559)</u>	<u>\$ (94,434,257)</u>
 Supplemental Disclosure of Noncash Capital and Related Financing Activities:		
Contribution of fixed assets from City and County of Honolulu	<u>\$ 11,788,398</u>	<u>\$ 35,991,742</u>

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2003 and 2002**

1. Summary of Significant Accounting Policies

Financial Statement Presentation

These financial statements follow Governmental Accounting Standards Board (“GASB”) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Under GASB No. 20, all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989 are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

The City and County of Honolulu Public Transportation System follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These Statements provide for new financial reporting requirements for state and local governments.

Reporting Entity

The Department of Transportation Services (“DTS”) of the City and County of Honolulu (“City”) oversees the operations of the City bus and paratransit systems. As discussed in Note 2, the City selected Oahu Transit Services, Inc. (“OTS”) to manage, operate and maintain the City bus and paratransit systems on behalf of the City. The accompanying financial statements present only the accounts maintained by OTS in managing the City bus and paratransit operations. Such accounts are included in the Public Transportation System account of the City’s proprietary funds and accordingly, the accompanying financial statements are not intended to present fairly the financial position of the City, and the changes in its financial position and cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the City’s bus and paratransit systems. The principal operating revenues are from charges for passenger fares, while operating expenses include cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements

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and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City and County of Honolulu Public Transportation System considers all cash on hand, demand deposits and short-term investments (including restricted assets) with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Parts and Supplies Inventories

Inventories of parts and supplies are stated at weighted average cost.

Investments

Investments reported as restricted assets are recorded at fair value based on quoted market prices.

Property and Equipment

All acquired property and equipment are recorded at cost. Those assets transferred to the City and County of Honolulu Public Transportation System from the various departments or agencies of the City are recorded at the net book value at date of transfer. Upon retirement or disposal of property or equipment, the remaining net book value is charged to operations.

Depreciation of property and equipment is provided on the straight-line basis over the following estimated useful lives of the assets:

	Years
Shops, buildings, building improvements and renovations	31.5 to 40
Buses	7 or 12
Paratransit vans	5
All other assets	5 to 7

Effective July 1, 2001, the City raised its equipment capitalization threshold to \$5,000 and its building, improvements and infrastructure threshold to \$100,000. Management believes the new capitalization threshold is more consistent with the industry standard and will lessen the administrative burden on its staff.

The change in the capitalization threshold resulted in a write-off of assets of approximately \$1,157,000.

Vacation and Sick Leave

OTS accrues a liability for compensated absences (vacation and sick leave) as employees earn the rights to those benefits. An accrual is made for services that are already rendered and that are not contingent on a specific event outside the control of the employer and employee.

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Certain OTS employees may elect to redeem a portion of their annual sick leave allowance. Employees who retire and meet certain eligibility requirements may be entitled to a lump sum payment for accumulated sick leave. At the balance sheet date, OTS recorded a sick leave liability to the extent it is probable that benefits will result in annual and/or termination payments.

Deferred Income

Bus passes with expiration dates that extend beyond the fiscal year end are amortized over the life of the pass. Bus vouchers are recognized as revenues upon redemption.

Net Assets

Net assets comprise the various net earnings (loss) from operating and nonoperating revenues, expenses, transfers and contributions. Net assets are classified in the following components: invested in capital assets and unrestricted net assets. Invested in capital assets consists of capital assets, net of accumulated depreciation. Unrestricted net assets consist of all other net assets not included in the other category.

Revenue and Expenses

Revenue collected by OTS, except for management fees, is the property of the City and is remitted to a depository controlled by the City. Generally, OTS is reimbursed by the City for all expenses incurred in managing and operating the bus and paratransit systems.

Transfers

The City provides assistance to OTS through transfers. The source of such funding is subject to the availability of appropriations from the City Council, City and County of Honolulu.

Contributions

Contributions from the City for capital purchases and property and equipment (primarily buses and vans) and subsidies that were funded by federal and local grants are recognized as income.

2. Management and Operations Agreement

OTS has an agreement with the City to provide for the management of the City bus system and the City special transit service ("paratransit"). OTS provides the employees to operate and manage the bus and paratransit systems. Under the agreement, the City reimburses OTS for operating expenses incurred for salaries and wages, employee benefits (including vacation and sick leave and employee benefit plan costs), professional and consulting fees, materials, supplies and services, and all other operating expenses attributable to the bus and paratransit systems. Contract services reported on the statements of revenues, expenses and changes in net assets include reimbursements paid to OTS for labor and fringe benefits. The agreement provides for the City to pay OTS an annual management fee of \$365,000 through June 30, 2002. The management agreement, which was amended on July 1, 2002, extended the contract period until September 30, 2002 for an additional fee of \$91,250. On October 1, 2002, a second amendment was executed to extend the management agreement until September 30, 2007. The annual management fee for the period October 1, 2002 through September 30, 2003 is \$375,000 and is increased by \$10,000 for each of the two years thereafter,

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then by \$15,000 for each of the remaining two years. Such amount is subject to annual increases upon approval of the DTS and the availability of appropriations by the City Council, City and County of Honolulu.

The agreement provides that the City furnish, but retain title to, the transit buses, paratransit buses, properties, facilities and equipment used in the transit system. Revenue collected by OTS, excluding management fees, is the property of the City and is remitted to a depository controlled by the City.

3. Cash and Cash Equivalents

The cash balances reported in the accompanying statement of net assets are included in the City's cash and investment pool that is used by substantially all of the City's funds. Information pertaining to bank balances and classification of risk is available for only the total cash and investment pool.

4. Restricted Assets Held by OTS

OTS, trustor, maintains trust funds for the purpose of maintaining adequate funds for expenses incurred through its workers' compensation, general and automotive liability self-insurance programs. Pursuant to the trust agreement, the Trustee is required to invest the funds in either interest-bearing bonds, mutual funds, notes, or obligations of the United States or in certificates of deposits of institutions that are federally insured. All income realized from the investments reverts to the trust fund. Upon termination of the trust fund, all assets of the trust fund will be distributed to the City subject to certain limitations as described in the trust agreement. Payments for self-insured workers' compensation, general and automotive liability claims are made from the trust fund subject to certain limitations as described in the trust agreement.

At June 30, 2003 and 2002, the restricted assets held by OTS consisted of the following:

Description	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 740,529	\$ 740,529	\$ 815,957	\$ 815,957
Mutual funds	<u>-</u>	<u>-</u>	<u>3,454</u>	<u>3,498</u>
Total restricted assets	<u>\$ 740,529</u>	<u>\$ 740,529</u>	<u>\$ 819,411</u>	<u>\$ 819,455</u>

The cash, cash equivalents and mutual funds were either insured or registered in the Trust's name at June 30, 2003 and 2002.

Net realized gain was \$5,248 and \$33,619 for fiscal 2003 and 2002, respectively.

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5. Property and Equipment

A summary of the changes in property and equipment for the years ended June 30, 2003 and 2002 follows:

	Balance, July 1, 2002	Additions	Retirements/ Transfers	Balance, June 30, 2003
Buses	\$ 131,109,268	\$ 9,023,737	\$ (5,164,857)	\$ 134,968,148
Shops, buildings, building improvements and renovations	50,478,951	-	-	50,478,951
Shop and other equipment	22,131,286	162,079	(4,151,802)	18,141,563
Paratransit vans	7,520,658	2,217,823	-	9,738,481
Automobiles and trucks	1,981,869	-	(91,433)	1,890,436
Furniture and equipment	555,133	338	(426,826)	128,645
	<u>213,777,165</u>	<u>11,403,977</u>	<u>(9,834,918)</u>	<u>215,346,224</u>
Less accumulated depreciation	<u>(126,848,391)</u>	<u>(13,588,350)</u>	<u>8,534,103</u>	<u>(131,902,638)</u>
	86,928,774	(2,184,373)	(1,300,815)	83,443,586
Land	<u>57,847,849</u>	<u>-</u>	<u>-</u>	<u>57,847,849</u>
Property and equipment, net	<u>\$ 144,776,623</u>	<u>\$ (2,184,373)</u>	<u>\$ (1,300,815)</u>	<u>\$ 141,291,435</u>

	Balance, July 1, 2001	Additions	Retirements/ Transfers	Balance, June 30, 2002
Buses	\$ 124,308,489	\$ 8,482,440	\$ (1,681,661)	\$ 131,109,268
Shops, buildings, building improvements and renovations	34,747,298	21,140,904	(5,409,251)	50,478,951
Shop and other equipment	16,973,193	5,313,471	(155,378)	22,131,286
Paratransit vans	5,803,961	2,791,581	(1,074,884)	7,520,658
Automobiles and trucks	1,850,320	202,404	(70,855)	1,981,869
Furniture and equipment	564,201	1,349	(10,417)	555,133
	<u>184,247,462</u>	<u>37,932,149</u>	<u>(8,402,446)</u>	<u>213,777,165</u>
Less accumulated depreciation	<u>(118,220,577)</u>	<u>(14,737,777)</u>	<u>6,109,963</u>	<u>(126,848,391)</u>
	66,026,885	23,194,372	(2,292,483)	86,928,774
Construction in progress	20,411,363	-	(20,411,363)	-
Land	<u>41,324,958</u>	<u>18,695,658</u>	<u>(2,172,767)</u>	<u>57,847,849</u>
Property and equipment, net	<u>\$ 127,763,206</u>	<u>\$ 41,890,030</u>	<u>\$ (24,876,613)</u>	<u>\$ 144,776,623</u>

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Notes to Financial Statements
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6. Net Assets

At June 30, 2003 and 2002, net assets consisted of the following:

	2003	2002
Invested in Capital Assets:		
Property and equipment, net	\$ 141,291,435	\$ 144,776,623
Unrestricted	<u>(2,330,659)</u>	<u>3,008,291</u>
	<u><u>\$ 138,960,776</u></u>	<u><u>\$ 147,784,914</u></u>

7. Reserve for Insurance Claims Payable

The City sponsors an automotive and general liability self-insurance program for OTS. The self-insurance program is for claims up to \$1,000,000. The City also has a workers' compensation self-insurance program, which covers OTS claims up to \$300,000 per occurrence for policy periods through June 30, 1995, \$250,000 per occurrence from July 1, 1995 through June 30, 2002 and \$1,000,000 per occurrence from July 1, 2002. OTS has obtained excess insurance coverage for general liability and automotive claims and workers' compensation through various insurance companies for amounts in excess of claims covered under the two self-insurance programs.

During fiscal 2000, OTS entered into a loss portfolio transfer with American International Group (AIG) whereby AIG assumed the liability for future payments on accidents occurring prior to March 1, 1998 for workers' compensation and accidents occurring prior to January 1, 2000 for automotive and general liability. Effective April 24, 2000, Oahu Transit Services Insurance Group ("OTSIG"), a wholly owned subsidiary of OTS, was incorporated to operate as a nonprofit captive insurance company. Accordingly, the financial statements of OTSIG are included in bus operations in the accompanying financial statements. OTSIG was primarily organized to facilitate the loss portfolio transfer to AIG. OTSIG transferred the claims, which had a carrying value of approximately \$8.8 million to a third party reinsurer for a premium of \$10 million with a \$15 million aggregate limitation. Management believes the reinsurance policy is adequate to cover all costs associated with the ultimate settlement of these claims. Accordingly, no provision for any liability that may result from the resolution of these claims has been made in the accompanying financial statements.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2003 and 2002**

The amounts payable for claims incurred and claims incurred but not reported for the years ended June 30, 2003 and 2002 are as follows:

	Balance, July 1, 2002	Additions	Payments	Balance, June 30, 2003
Automotive and general liability	\$ 3,106,500	\$ 2,799,533	\$ (2,254,033)	\$ 3,652,000
Workers' compensation	<u>6,412,781</u>	<u>4,437,444</u>	<u>(4,131,371)</u>	<u>6,718,854</u>
Reserve for insurance claims payable	<u>\$ 9,519,281</u>	<u>\$ 7,236,977</u>	<u>\$ (6,385,404)</u>	<u>\$ 10,370,854</u>
	Balance, July 1, 2001	Additions	Payments	Balance, June 30, 2002
Automotive and general liability	\$ 2,133,500	\$ 2,698,158	\$ (1,725,158)	\$ 3,106,500
Workers' compensation	<u>5,640,427</u>	<u>3,686,226</u>	<u>(2,913,872)</u>	<u>6,412,781</u>
Reserve for insurance claims payable	<u>\$ 7,773,927</u>	<u>\$ 6,384,384</u>	<u>\$ (4,639,030)</u>	<u>\$ 9,519,281</u>

8. Employee Benefit Plans

Pension Plans

OTS participates in the Western Conference of Teamsters Pension Plan, a noncontributory multiemployer defined benefit pension plan which provides for pension benefits to all bargaining employees at stipulated rates.

Pension expense under the multiemployer plan was \$6,789,567 and \$5,521,782 for the years ended June 30, 2003 and 2002, respectively. The information relating to the relative position of each employer associated with its multiemployer plan with respect to the actuarial present value of accumulated benefits and the net assets available for benefits is not available.

OTS also has a noncontributory single-employer defined benefit pension plan, which provides eligible nonbargaining unit employees with retirement and disability benefits for past and future services. Pension expense for the plan was \$203,121 and \$163,555 in fiscal 2003 and 2002, respectively.

The following pension information is for disclosure purposes only as this is an OTS plan and is recorded and disclosed in OTS' separate financial statements.

**City and County of Honolulu
Public Transportation System –
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Notes to Financial Statements
June 30, 2003 and 2002**

OTS's annual pension cost and net prepaid pension cost for the single-employer pension plan at June 30, 2003 and 2002 are as follows:

	2003	2002
Annual required contribution	\$ 7,436	\$ -
Interest on net pension asset	(473,430)	(395,697)
Adjustment to annual required contribution	669,115	559,252
Annual pension cost	203,121	163,555
Contributions made	1,200,000	1,200,000
Increase in net pension asset	996,879	1,036,445
Net pension asset at beginning of year	6,312,402	5,275,957
Net pension asset at end of year	<u>\$ 7,309,281</u>	<u>\$ 6,312,402</u>

The annual required contribution of the single-employer pension plan for the current year was determined as part of the June 30, 2003 actuarial valuation using the entry age normal with frozen initial liability actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a four-year period. The remaining amortization period at June 30, 2003 was 11 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
June 30, 2001	\$ 127,197	1,022 %	\$ 5,275,957
June 30, 2002	163,555	734 %	6,312,402
June 30, 2003	203,121	591 %	7,309,281

**Required Supplementary Information
Schedule of Funding Progress (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability AAL – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2000	\$ 18,236,744	\$ 19,127,631	\$ 890,887	95 %	\$4,821,312	18.5 %
March 1, 2001	18,850,923	19,498,560	647,637	97 %	4,658,834	13.9 %
March 1, 2002	17,162,998	17,364,048	201,050	99 %	5,131,631	3.9 %

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2003 and 2002**

Postretirement Health Benefit Plans

OTS provides its nonbargaining unit employees with postretirement health benefits. Specifically, Medicare and health insurance premiums for retired employees and their spouses are funded on a pay-as-you-go basis. The cost of insurance premiums paid for the years ended June 30, 2003 and 2002 amounted to \$190,298 and \$172,084, respectively.

OTS also provides its bargaining unit employees postretirement health benefits under its collective bargaining agreement with the Hawaii Teamsters and Allied Workers Union Local 996. OTS is required to contribute \$0.21 per straight-time compensable hour earned. Contributions for the years ended June 30, 2003 and 2002 amounted to \$552,707 and \$548,528, respectively.

Deferred Compensation Plan

OTS offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with these amounts, and all income attributable to those amounts, property or rights are maintained in annuity contracts for each respective employee. In accordance with Internal Revenue Code Section 457, deferred compensation plan assets of \$10,868,373 and \$9,202,062 are not reflected in the accompanying financial statements at June 30, 2003 and 2002, respectively.

9. Litigation

OTS and the City are involved in various lawsuits arising from the normal operations of the City bus and paratransit systems. Claims for punitive damages related to certain lawsuits may not be covered by insurance. As provided in the management agreement with the City, the City indemnifies OTS from any and all claims made against OTS and the City for legal liability, damages and injuries where such claims are reasonably related to the providing of mass transportation services.

10. Risks and Uncertainties

The collective bargaining agreement between OTS, for its bus operations and the Hawaii Teamsters and Allied Workers Local 996 ("Union"), for operating and maintenance and office and administrative employees, expired on June 30, 2003. For the period of July 1, 2003 through August 25, 2003, OTS and the Union have agreed to continue the terms and conditions of the prior labor agreements until a settlement has been reached for a new bargaining agreement.

On August 26, 2003, the Union exercised its right to strike. On September 27, 2003, a new collective bargaining agreement was ratified by the members of the Union.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statement of Net Assets Information
June 30, 2003**

Schedule 1-1

	Bus Operations	Paratransit Operations	Eliminations	Total
Assets			Debit	Credit
Current Assets:				
Cash and cash equivalents	\$ 4,317,147	\$ 600	\$ -	\$ 4,317,747
Parts and supplies inventories, net	6,101,613	529,443	-	6,631,056
Prepaid expenses and other assets	1,647,018	57,241	-	1,704,259
Intercompany receivable	72,764,509	2,726,221	-	75,490,730 (1)
Total current assets	84,830,287	3,313,505	-	75,490,730
Restricted Assets Held by Oahu Transit Services, Inc. (2)	740,529	-	-	740,529
Property and Equipment, net	137,084,978	4,206,457	-	141,291,435
Total assets	222,655,794	7,519,962	-	75,490,730
				154,685,026
Liabilities and Net Assets				
Current Liabilities:				
Payable to Oahu Transit Services, Inc. for accrued expenses	666,911	115,565	-	-
Intercompany payables	2,726,221	72,764,509	75,490,730 (1)	782,476
Reserve for insurance claims payable (2)	10,370,854	-	-	-
Accounts payable	984,816	58,429	-	10,370,854
Deferred income	1,244,150	-	-	1,043,245
Total current liabilities	15,992,952	72,938,503	-	1,244,150
				13,440,725
Noncurrent Payable to Oahu Transit Services, Inc.	2,283,525	-	-	-
Total liabilities	18,276,477	72,938,503	75,490,730	2,283,525
				15,724,250
Net Assets:				
Invested in capital assets	137,084,978	4,206,457	-	141,291,435
Unrestricted	67,294,339	(69,624,998)	-	(2,330,659)
Total net assets	\$ 204,379,317	\$ (65,418,541)	\$ -	\$ 138,960,776

(1) Elimination of intercompany receivables and payables.

(2) Amount included in the bus operations column does not include an allocation to paratransit operations.

See accompanying report of independent auditors.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statement of Net Assets Information
June 30, 2002**

Schedule 1-2

	Assets	Bus Operations	Paratransit Operations	Eliminations		Total
				Debit	Credit	
Current Assets:						
Cash and cash equivalents	\$ 8,877,627	\$ 600	\$ -	\$ -	\$ -	\$ 8,878,227
Parts and supplies inventories, net	5,856,197	496,692	-	-	-	6,352,889
Prepaid expenses and other assets	1,693,391	55,044	-	-	-	1,748,435
Intercompany receivable	58,170,970	2,854,075	-	-	61,025,045 (1)	-
Total current assets	74,598,185	3,406,411	-	-	61,025,045	16,979,551
Restricted Assets Held by Oahu Transit Services, Inc. (2)	819,455	-	-	-	-	819,455
Property and Equipment, net	141,428,583	3,348,040	-	-	-	144,776,623
Total assets	216,846,223	6,754,451	-	-	61,025,045	162,575,629
Liabilities and Net Assets						
Current Liabilities:						
Payable to Oahu Transit Services, Inc.	806,125	130,424	-	-	-	936,549
for accrued expenses	2,849,489	58,175,556	61,025,045 (1)	-	-	-
Intercompany payables	9,519,281	-	-	-	-	9,519,281
Reserve for insurance claims payable (2)	1,065,980	117,289	-	-	-	1,183,269
Accounts payable	653,946	-	-	-	-	653,946
Deferred income	14,894,821	58,423,269	61,025,045	-	-	12,293,045
Total current liabilities	2,497,670	-	-	-	-	2,497,670
Noncurrent Payable to Oahu Transit Services, Inc.	17,392,491	58,423,269	61,025,045	-	-	14,790,715
Total liabilities	141,428,583	3,348,040	-	-	-	144,776,623
Net Assets:	58,025,149	(55,016,858)	-	-	-	3,008,291
Invested in capital assets	\$ 199,453,732	\$ (51,668,818)	\$ -	\$ -	\$ -	\$ 147,784,914
Unrestricted						
Total net assets						

(1) Elimination of intercompany receivables and payables.

(2) Amount included in the bus operations column does not include an allocation to paratransit operations.

See accompanying report of independent auditors.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Operations Information
For the Year Ended June 30, 2003**

Schedule 2-1

	Bus Operations	Paratransit Operations	Eliminations Debit	Credit	Total
Operating Revenues:					
Passenger fares for transit services	\$ 29,935,024	\$ 1,422,700	\$ -	\$ -	\$ 31,357,724
Nontransportation revenue	224,250	14,325	-	-	238,575
Special service revenue	179,541	-	-	-	179,541
Total operating revenues	30,338,815	1,437,025	-	-	31,775,840
Operating Expenses:					
Contract services	88,469,401	11,436,154	-	-	99,905,555
Depreciation	12,356,159	1,232,191	-	-	13,588,350
Insurance	9,145,814	2,019,884	-	-	11,165,698
Material and supplies	8,096,433	626,518	-	-	8,722,951
Fuel and lubricants	5,564,828	626,146	-	-	6,190,974
Services	2,815,614	792,597	-	-	3,608,211
State fuel taxes	2,094,708	206,689	-	-	2,301,397
Utilities, rentals and others	1,169,576	312,820	-	-	1,482,396
Total operating expenses	129,712,533	17,252,999	-	-	146,965,532
Operating loss	(99,373,718)	(15,815,974)	-	-	(115,189,692)
Nonoperating Revenue (Expense):					
Interest income (1)	32,439	-	-	-	32,439
Loss on disposal or write-off of property and equipment	(1,084,585)	(133,993)	-	-	(1,218,578)
Net increase (decrease) in fair value of investments	(61,241)	-	-	-	(61,241)
Loss before transfers and contributions	(100,487,105)	(15,949,967)	-	-	(116,437,072)
Transfers – Appropriations from City and County of Honolulu (1)	74,612,893	-	-	-	74,612,893
Contributions	30,799,792	2,200,249	-	-	33,000,041
Change in net assets	4,925,580	(13,749,718)	-	-	(8,824,138)
Net Assets at Beginning of Year	199,453,732	(51,668,818)	-	-	147,784,914
Net Assets at End of Year	\$ 204,379,312	\$ (65,418,536)	\$ -	\$ -	\$ 138,960,776

(1) Amount included in the bus operations column does not include an allocation to paratransit operations.

See accompanying report of independent auditors.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Operations Information
For the Year Ended June 30, 2002**

Schedule 2-2

	Bus Operations	Paratransit Operations	Eliminations Debit	Eliminations Credit	Total
Operating Revenues:					
Passenger fares for transit services	\$ 30,455,137	\$ 1,388,391	\$ -	\$ -	\$ 31,843,528
Nontransportation revenue	274,327	13,502	-	-	287,829
Special service revenue	147,511	-	-	-	147,511
Total operating revenues	30,876,975	1,401,893	-	-	32,278,868
Operating Expenses:					
Contract services	84,698,921	10,407,310	-	-	95,106,231
Depreciation	13,871,740	866,037	-	-	14,737,777
Insurance	7,876,253	782,772	-	-	8,659,025
Material and supplies	9,674,412	542,823	-	-	10,217,235
Fuel and lubricants	5,183,546	541,541	-	-	5,725,087
Services	2,857,982	966,580	-	-	3,824,562
State fuel taxes	2,068,188	197,103	-	-	2,265,291
Utilities, rentals and others	1,109,171	327,806	-	-	1,436,977
Total operating expenses	127,340,213	14,631,972	-	-	141,972,185
Operating loss	(96,463,238)	(13,230,079)	-	-	(109,693,317)
Nonoperating Revenue (Expense):					
Interest income (1)	60,858	-	-	-	60,858
Loss on disposal or write-off of property and equipment	(4,471,982)	(18,948)	-	-	(4,490,930)
Net increase (decrease) in fair value of investments	11,290	-	-	-	11,290
Loss before transfers and contributions	(100,863,072)	(13,249,027)	-	-	(114,112,099)
Transfers – Appropriations from City and County of Honolulu (1)					
Contributions	72,911,690	-	-	-	72,911,690
Change in net assets	55,342,555	2,820,189	-	-	58,162,744
Net Assets at Beginning of Year	27,391,173	(10,428,838)	-	-	16,962,335
Net Assets at End of Year	172,062,559	(41,239,980)	-	-	130,822,579
	\$ 27,391,173	\$ (10,428,838)	\$ -	\$ -	\$ 147,784,914

(1) Amount included in the bus operations column does not include an allocation to paratransit operations.

See accompanying report of independent auditors.